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THESIS

IMPLEMENTATION OF A MENTOR-PROTEGE PROGRAM
BY A MAJOR DEPARTMENT OF DEFENSE CONTRACTOR

by

Andrew Duane Huff

JUNE 1991

Thesis Advisor:

David V. Lamm

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Implementation of Mentor-Protege Program
By a Major Department of Defense Contractor

by

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Lieutenant Commander, United States Navy
B.A., University of West Florida, 1977

Submitted in partial fulfillment of the
requirements for the degree of

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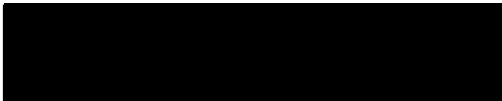
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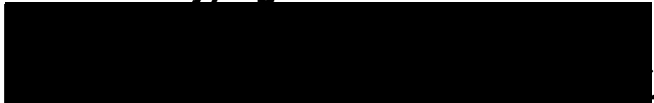
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ABSTRACT

Public Law 101-510 established the pilot Mentor-Protege Program. This is a voluntary program designed to provide incentives for major Department of Defense contractors to furnish disadvantaged small business concerns with assistance designed to enhance their capabilities to perform as subcontractors and suppliers under both Government and commercial contracts. This study was undertaken to assess the environment for program implementation by analyzing the perceptions of one large DoD contractor and the small disadvantaged business community regarding the Mentor-Protege program and DoD's implementing guidance.

The results of this study indicate: There is generally a positive impression of this program and the assistance offered by this program would be effective in improving the capabilities of small disadvantaged businesses. There are, however, several barriers present that could prevent program implementation or limit its effectiveness.



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I. INTRODUCTION

A. BACKGROUND

Section 831 of Public Law 101-510, the National Defense Authorization Act for Fiscal Year 1991, established a Mentor-Protege pilot program. This program is designed to encourage large defense contractors to enter voluntarily into agreements with small disadvantaged business (SDB) concerns to enhance the capabilities of those SDBs to perform in the defense subcontract vendor base. The mentor firm would impart to the protege firm the technical knowledge and skills to compete successfully in the defense marketplace. In addition, the program should increase the number of subcontracts awarded to SDBs [Ref. 1:p. 631]. Proposed Department of Defense (DoD) regulations governing this program were published in the Federal Register May 2, 1991 for public review and comment.

This law is the most recent in a series of laws enacted to increase the share of Government contracts awarded to SDBs.

B. OBJECTIVES OF THE RESEARCH

The objectives of this research effort were: (1) to briefly examine the history of small business related agencies in the Federal Government and major legislation dealing with SDBs; (2) to review the legislative history, Congressional intent and proposed DoD regulations for the Mentor-Protege

program; (3) to determine the initial perceptions of the program from SDBs and one major DoD contractor; and, (4) to assess the possible barriers to implementing the program.

C. THE RESEARCH QUESTION

In order to accomplish the objectives of this study, the following research question was pursued:

What strategy options could the CONVAIR division of General Dynamics pursue to implement a Mentor- Protege program?

The following subsidiary questions were germane to this research effort:

1. What are the essential elements of the Mentor-Protege program?
2. What was the intent of Congress in initiating this program?
3. What are the perceptions of General Dynamics of the Mentor-Protege program?
4. What are the SDBs' perceptions of the Mentor-Protege program?
5. What are the major barriers to implementing a Mentor-Protege program and how might they be eliminated?

D. SCOPE, LIMITATIONS AND ASSUMPTIONS

The Mentor-Protege program is a voluntary program established by Congress that provides the framework for major DoD contractors to develop SDBs capable of meeting available

defense opportunities and should foster the establishment of stable, long-term business relationships. The purpose of this thesis is to examine how one major DoD contractor could implement a Mentor-Protege program. This will be accomplished by examining Congressional intent in establishing the program, the current organization and policies of the CONVAIR Division of General Dynamics with regard to SDBs, the small disadvantaged business environment in southern California, and their impact on program implementation.

The law establishing the Mentor-Protege program was passed within the last year. Policies and procedures governing this program are still under development. Therefore, any conclusions or recommendations are "point-in-time" and could become dated or inappropriate as formal policies are established. It is assumed that the reader of this study is familiar with contract management and the acquisition process within the Department of Defense.

E. RESEARCH METHODOLOGY

The research for this thesis was done through a comprehensive search of the literature utilizing the Naval Postgraduate School Library, the Defense Logistics Studies Information Exchange (DLSIE), the Federal Register, and Congressional Records. Telephonic interviews were conducted with SDBs to assess their perception of the Mentor-Protege program and with Congressional Staff members of the Senate

Small Business Committee to determine Congressional intent. Personal interviews were conducted with procurement personnel in the CONVAIR Division of General Dynamics who are responsible for the company's small business programs to assess their perceptions of the Mentor-Protege program.

F. ORGANIZATION OF THE STUDY

This thesis studies the possible barriers to implementation of a Mentor-Protege program by one major DoD contractor.

Chapter II discusses the background of small business related agencies of the Federal Government, major legislation addressing small disadvantaged business and its effectiveness.

Chapter III discusses Congressional intent, essential elements, and proposed DoD regulations with regard to the Mentor-Protege program.

Chapter IV analyzes the results of interviews with General Dynamics personnel regarding their perceptions of the Mentor-Protege program.

Chapter V analyzes the results of interviews with small disadvantaged businesses regarding their perceptions of the Mentor-Protege program.

Chapter VI presents the researcher's observations, conclusions and recommendations concerning this program.

II. THE BACKGROUND OF SMALL BUSINESS LEGISLATION

A. INTRODUCTION

The establishment of the Mentor-Protege pilot program under P.L. 101-510 is a reaffirmation of the commitment of Congress to implement socio-economic policies through the Federal Government procurement process. The program also reflects the Congressional attitude that big business should assume a share of the Small Business Administration's (SBA) 8(a) set aside procurement program burden [Ref. 2:p. ii]. The Mentor-Protege program, along with other procurement programs already established, clearly demonstrate that "socio-economic programs now rank as important in the procurement process as the basic business of buying." [Ref. 3:p. 40]

B. A SYNOPSIS OF SMALL BUSINESS RELATED GOVERNMENT AGENCIES

Small business plays a vital role in the United States' economy. Ninety-nine percent of all U. S. businesses are considered small according to the SBA definition of small business¹ [Ref. 4:p. 19]. These small businesses provide

¹ Small business concern is a concern, including its affiliates that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualified as a small business under the criteria and size standards in 13 CFR part 121.

Small disadvantaged business concern is a concern that is at least 51 percent owned by one or more individuals who are both socially and economically disadvantaged, or a publicly owned

approximately 47% of all private sector jobs, and nearly two thirds of all new jobs are to be found in companies employing less than 20 people [Ref. 4:p. 19]. According to the SBA, more than half of industrial innovations and inventions come from the small business community and small business accounts for about 38% of our nation's gross national product [Ref. 4:p. 19]. In view of this significant economic impact, the Federal Government has a strong interest in maximizing small business participation in its procurement process.

The Executive Department organization with the primary responsibility for implementing legislation and programs dealing with small business and SDBs is the Small Business Administration. The SBA was created when Congress passed the Small Business Act on July 30, 1953. [Ref. 6:p. 10]

The history of the Small Business Act and SBA can be traced back to the Reconstruction Finance Corporation (RFC) which was established in January 1932 [Ref. 7:p. 9]. The RFC was created to aid both large and small businesses during the Great Depression. It flourished through World War II and was instrumental in transitioning the United States to a peacetime economy at the war's end [Ref. 8:p. 3]. The RFC met its demise when it became apparent that it was making dubious loans to

business having at least 51 percent of its stock owned by one or more socially and economically disadvantaged individuals and has its management and daily business controlled by one or more such individuals. [Ref. 5:sec. 19.001]

large corporations and when public hearings showed evidence of influence peddling. [Ref. 8:p.4]

The Small Business Act that established the SBA also terminated the RFC. The RFC is important because it established the idea of aid to business as a legitimate Government function. [Ref. 9:p. 377]

In addition to the RFC and SBA, there have been other agencies responsible for promoting small business participation in Government procurement. In 1942 P.L. 77-603 was passed. This law was the first to deal specifically with small business and established the Smaller War Plants Corporation (SWPC). The SWPC assisted small businesses in securing Government contracts and perform work as subcontractors. It established and maintained an inventory of small business production facilities which were used by Government buying agencies and prime contractors to locate small business sources. Under P.L. 77-603, using procedures similar to the SBA's current set-aside program, Government agencies contracted with the SWPC for required items; SWPC would then award a subcontract for performance to a small business. The SWPC also had the authority to make loans to small businesses requiring financial assistance [Ref. 9:p. 377]. Prior to its termination at the end of World War II, the SWPC was responsible for awarding over one hundred and ten thousand contracts valued in excess of 5 billion dollars to small businesses. [Ref. 6:p. 9]

Five years later the next Federal Government small business advocate was created by an amendment to the Defense Production Act of 1950. The Small Defense Plants Administration (SDPA) was established, again, to assist small businesses to obtain Government contracts. The SDPA was very similar to the SWPC, but had the additional responsibility of certifying small businesses' capabilities for contract performance. This was done by issuing Certificates of Competency which prevented contracting officers from declaring small firms to be nonresponsible. Although the SDPA could certify the ability of small businesses to perform, it had no authority to ensure Government agencies contracted with certified small businesses [Ref. 6:p. 10]. This limitation significantly reduced the effectiveness of SDPA mission performance. The SDPA was abolished by the Small Business Act, along with the Reconstruction Finance Corporation, leaving the SBA as the Federal Government's lone small business advocate.

The primary purpose of the Small Business Administration is to encourage and develop the actual and potential capacity of small businesses in order to achieve economic well-being and enhance national security. The SBA performs a wide variety of functions which include financial assistance, procurement assistance, and management assistance. In 1958 the Small Business Investment Act was passed. This legislation gave the SBA responsibility to provide equity capital and long term financing for small businesses. [Ref. 8:p. 6]

C. A SYNOPSIS OF SOCIO-ECONOMIC PROCUREMENT LEGISLATION

One of the major concerns of the SBA is improving the opportunities and competitiveness of small disadvantaged businesses. This policy was spelled out in P. L. 85-536 of July 1958 which states:

It is the policy of the United States that Small Business Concerns and Small Disadvantaged Business Concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency, including contracts and subcontracts for subsystems, assemblies, components, and related services for major systems.

The major legislation dealing with SDBs that will be discussed in this section include:

1. Section 8(a) of the Small Business Act of 1953
2. Public Law 95-507
3. Section 1207 of Public Law 99-661
4. Public Law 100-656.

Section 8(a) of the Small Business Act contains the original authority for a program to assist small disadvantaged businesses. Under Section 8(a), the SBA determines which contracts from Federal agencies can be set aside for SDBs; then acts as a prime contractor to the requiring Federal agencies and subcontracts the work to eligible firms. The program also offers management, technical, financial, and marketing aid to firms. The SBA expected that firms participating in the program would use set-aside contract and

professional/technical assistance to develop into self-sufficient firms capable of competing in the marketplace without 8(a) support. [Ref. 2:p. 1]

The program is administered by Business Development Specialists (BDS) whose major tasks are:

1. reviewing and processing applications from SDBs;
2. managing a portfolio of active 8(a) firms by:
 - a. conducting field visits to client firms
 - b. analyzing financial statements
 - c. assisting in resolving client firms' problems
 - d. providing client firms with management, marketing, technical, and financial aid;
3. determining the capabilities of client firms to perform;
4. soliciting external support for the 8(a) program from State legislatures, private sector and business organizations. [Ref. 2:p. 3]

The cornerstone of the 8(a) program is the business that is prepared by the 8(a) firm and approved by the SBA. This plan is a comprehensive document that identifies the resources required for the firm to become a self-sustaining business. The plan is also the basis from which the SBA determines the types of assistance the firm may require to overcome its business deficiencies. The plan also includes projections, usually for a 3 year period, for the amount of 8(a) contract support and the projected growth in non-8(a) sales needed to attain self-sufficiency. These projections become the baseline from which program progress is monitored.

The next major piece of legislation dealing with SDBs is Public Law 95-507 enacted on October 24, 1978. P.L. 95-507 strengthened the powers of the SBA, provided for contractual acceptance of Government SDB policy by contractors, required proactive efforts from contractors to increase contract awards to SDBs, and gave Federal agencies the added responsibility for achieving annual set aside goals for the award of agency procurement dollars to small businesses and SDBs. [Ref. 10:p. 40]

P.L. 95-507 strengthened the powers of the SBA with regard to the 8(a) program. Prior to this law, contracting officers could ignore SBA requests that specific contracts be set aside for the 8(a) program. Under the law, an appeal process was established to address contracting officers' refusals to set aside contracts for the 8(a) program. [Ref. 11:p. 55]

One of the most significant sections of P.L. 95-507 is Section 211 which requires that contracts awarded by any Federal agency in excess of \$10,000 that will be performed in the U.S.A. or its territories must contain the following clause:

It is the policy of the United States that small businesses and small business concerns owned and controlled by socially and economically disadvantaged individuals shall have the maximum practicable opportunity to participate in the performance of contracts let by any Federal agency. The contractor hereby agrees to carry out this policy in the awarding of subcontracts to the fullest extent consistent with the efficient performance of this contract. [Ref. 12:sec. 211]

Through this clause Government contractors are legally bound to abide by the Federal Government's small business/small disadvantaged business policies.

Section 211 also requires that successful offerors and low bidders on Federal contracts valued at more than \$500,000 (\$1 million for construction) submit a detailed subcontracting plan prior to contract award. The plan is required to contain the following information:

1. Percentage goals for utilization of small businesses and small disadvantaged businesses;
2. The name of the contractor's employee who will administer the program and a description of his/her duties;
3. A description of contractor efforts to ensure that these entities would have an equitable opportunity to compete for subcontracts;
4. A commitment to impose these same requirements on large subcontractors (same dollar thresholds as for the prime);
5. Assurances that the contractor would submit periodic reports and cooperate in studies and surveys required by Federal agencies in order to determine the level of compliance by the contractor with the plan;
6. A recitation of the types of records that a contractor would maintain to demonstrate compliance with goals and requirements set forth in the plan [Ref. 6:p. 15]. The failure of any contractor or subcontractor to comply in good faith with the forementioned clause or with any plan submitted as required by Section 211 would be deemed to be in breach of the contract.

This law had a major effect on the role of the contracting officer. Prior to P.L. 95-507, the contracting officer took a

passive role with regard to subcontracting efforts of the prime. Now the contracting officer is required to approve and enforce the subcontracting plan and its implementation. [Ref. 6:p. 16]

Section 211 also authorized incentives to prime contractors awarded contracts via negotiated procurements to encourage small disadvantaged business subcontracting opportunities. The provisions allowed an additional payment to the prime, up to 10% of the dollar value of subcontract awards in excess of the 5% goal. Payment of the incentive is at the discretion of the contracting officer and is not subject to appeal. [Ref. 12:p. 72]

The next legislation enacted to enhance SDB contracting opportunities was Section 1207 of Public Law 99-661. This law allows DoD to enter into contracts using less than "full and open competition" to facilitate achievement of the goal of awarding 5% of contract dollars to SDBs and to Historically Black Colleges and Minority Institutions (HBC&MI). Under this new program, the price of contracts awarded to SDBs and HBC&MIs can exceed fair market price by up to 10%. Also, in unrestricted acquisitions a 10% evaluation preference is permitted for SDBs, to the disadvantage of all other bidders.

With regard to the review and approval of subcontracting plans submitted by large prime contractors, Section 1207 requires that goals of less than 5% be approved at two levels above the contracting officer [Ref. 13:p. 13]. Section 806 of

Public Law 100-800 and Section 831 of Public Law 101-189 extended the provisions of Section 1207 through September 30, 1993.

The final piece of legislation to be discussed is Public Law 110-656, the Business Opportunity Development Reform Act. The primary thrust of this act was to revise substantially the SBA's 8(a) program. These revisions were enacted in response to weaknesses in the 8(a) program discovered by General Accounting Office audits. 8(a) program weaknesses and strengths will be discussed in the following section of this chapter. The most significant changes in the 8(a) program are in the areas of competition, competitive business mix, and business development expense.

If the anticipated award price of a contract is expected to exceed \$5 million for manufacturing or \$3 million for all other requirements, competition among 8(a) firms will be required. The competition may be restricted based on:

1. the determination of the requirement as a "local buy" (for one installation) or a "national buy" (for more than one installation use);
2. the progress an 8(a) firm is making in meeting its "business mix" as detailed in its SBA approved plan;
3. whether or not the firm is approved for the Standard Industrial Classification (SIC) code in the solicitation.

In order to ensure that 8(a) firms are actively seeking business outside the 8(a) program, specific non-8(a) business

activity targets have been established for firms in the "developmental stage" (first four years) and the "transitional stage" (last five years). The firm's eligibility for contract award under the 8(a) program may be affected by its success or efforts towards meeting its non-8(a) goals. P.L. 100-656 also replaced the SBA's authority to provide 8(a) firms with business development expense with a loan program. [Ref. 12:p. 13]

Congress, apparently not satisfied with the results of the "carrot" approach in P.L. 95-507 of offering financial incentives to prime contractors for exceeding the 5% SB/SDB subcontracting goal, took the opportunity with P.L. 100-656 to insert a "stick." Section 304 of the P.L. 100-656 now requires that prime contractors be charged liquidated damages for failure to meet, or make a good faith effort to meet, subcontracting goals for small business and small disadvantaged business as specified in contracts. [Ref. 13:p. 14]

D. EFFECTIVENESS OF SMALL DISADVANTAGED BUSINESS PROGRAMS

Congress has invested much time and effort to ensure that SDBs receive their fair share of Federal procurement dollars. The two primary programs established to meet this end are P.L. 95-507, which established the requirement for set-aside goals for both Federal agencies and large contractors, and the SBA's 8(a) Procurement program.

The Small Business Contract Set Aside Program established by P.L. 95-507 has achieved marginal success. Generally speaking, Federal agencies have met their self-established Small Business and Small Disadvantaged Business goals since they have been required beginning in fiscal year 1980 [Ref. 13:p. 41]. However, the real measure of success is the annual percentage of total procurement dollars awarded to the targeted groups. Throughout the 1980s the total percentage of Federal procurement dollars awarded to small businesses has remained virtually unchanged at 19%. The total percentage of Federal procurement dollars awarded to SDBs has also remained relatively constant, between 3 and 4 percent [Ref. 10:p. 41]. This lack of growth in small business/SDB contract awards indicates this program has not been successful.

The following nine factors have been suggested as reasons for the failure of Federal procurement set-aside goals:

1. Agencies must implement programs from vague and ambiguous legislation.
2. Performance is difficult to evaluate because of hard-to-measure output.
3. Generally, agencies will award contracts to firms within targeted groups that are most likely to succeed rather than to those most in need.
4. Goal displacement occurs because agencies' concern over the number of targeted firms reaching self-sufficiency becomes secondary to desires to achieve monetary goals.
5. Agencies must simultaneously implement the incompatible goals of full and open competition

and the Federal procurement preference programs that restrict competition.

6. There is no special agencies' budgets to support the implementation of nonprocurement objectives.
7. There are multiple responsibilities within the Federal procurement goal setting process, causing fragmentation of responsibilities.
8. Procurement preference programs lack effective incentive and enforcement mechanisms over agencies' performance.
9. Agencies will generally "lowball" goals to ensure attainment. [Ref. 15:p. 40]

The primary successes of the SBA's 8(a) program are that most 8(a) firms have been successful in meeting the terms and conditions of contracts awarded under the program and that almost thirteen hundred firms have graduated from the program through fiscal year 1987 [Ref. 15:p. 2]. The graduation rate increased dramatically between 1985 and 1987 as a result of Public Law 96-481. This law required the SBA to establish graduation dates for each firm in the 8(a) program.

The 8(a) program has experienced several long term problems that include:

1. a large percentage of 8(a) contracts are awarded to a very few firms;
2. firms may not be prepared for the competitive market at or near graduation;
3. SBA's management efforts fall short of requirements. [Ref. 15:p. 2]

In 1981 a GAO report on the 8(a) program reported that 50 firms had received 31% of the total value of 8(a) contracts awarded. In fiscal year 1987 the top 50 firms received approximately 35% of the 8(a) business. [Ref. 10:p. 5]

In its 1987 audit, the GAO surveyed a sample of 35 firms that had been in the 8(a) program at least seven years. By this time, the SBA expects firms to demonstrate they are prepared to compete in the open market by achieving a 75/25 non-8(a)/8(a) business mix. Only 20% of the firms surveyed had met or exceeded this business mix. The sample also included 10 of the 50 firms that had received the most 8(a) business in fiscal year 1987. The GAO analysis indicated that during the previous five years, their average total sales increased from \$3.8 million to \$20.8 million with 8(a) sales accounting for 75% of that growth. [Ref. 10:p. 6]

The SBA's management problems appear to be related to inadequate staffing [Ref. 15:p. 22]. At the time of the GAO audit, the SBA had one Business Development Specialist for every 26 8(a) firms, an increase of 9 firms per BDS since 1981. This is virtually double the workload of 10 to 15 firms per BDS the SBA says is ideal. This shortfall in personnel resources has been manifested by the following deficiencies noted by the GAO:

1. annual review of 8(a) firms were not being conducted;
2. annual site visits to 8(a) firms were not being conducted;
3. annual financial statements were not being submitted by 8(a) firms;
4. BDSs were not encouraging firms to develop non-8(a) business. [Ref. 15:p. 22-23]

E. SUMMARY

Chapter II has provided the reader with a brief history of the Small Business Administration and a discussion of the major legislation dealing with Government contracting with small disadvantaged businesses. The two primary programs created by Congress to support the goal of providing a fair share of Government procurement dollars to SDBs are the SBA's 8(a) procurement program and Public Law 95-507 which requires both Federal agencies and large contractors to achieve specific goals for contracting and subcontracting with SDBs. These programs have, so far, enjoyed only marginal success because the total percentage of total procurement dollars awarded to SDBs has remained constant at .3 to 4 percent of total procurement dollars throughout the 1980s.

Chapter III will discuss the Congressional intent, essential elements, and proposed DoD guidance for the newly established Mentor-Protege program. This program provides yet

another avenue to increase SDB participation in Government contracting.

III. THE MENTOR-PROTEGE PROGRAM

A. INTRODUCTION

In 1986 when Congress enacted P.L. 99-661, Section 1207 of that law created a goal of awarding 5% of DoD procurement dollars to small disadvantaged businesses (SDBs), historically Black colleges and universities (HBCUs), and other minority institutions (MIs). In Fiscal Years 1986 through 1989, 1.9% of DoD subcontracting dollars were awarded to SDBs [Ref. 16:p. 1]. Despite an increase in those awards to 2.3% in 1989, there were prime contractor complaints of difficulties in increasing the percentage because they reported SDBs lacked the knowledge, expertise, and capabilities to perform in areas where subcontracting opportunities existed [Ref. 16:p. 1]. From their perspective, SDBs felt that many prime contractors did not make serious efforts to do business with those SDB concerns that were qualified. [Ref. 16:p. 1]

Congress has tended to agree with the position of the SDBs and continues to recognize that there are still significant barriers preventing SDBs from fully participating in DoD procurements. This is evidenced by enactment of P.L. 101-189 which extended the 5% SDB procurement goal through Fiscal Year 1993, P.L. 101-656 Section 304 which calls for the assessment of liquidated damages against prime contractors that fail to

meet their subcontracting goals, and P.L. 101-510 Section 831 which established the pilot Mentor-Protege program.

The Mentor-Protege program has its origin in an amendment to the FY 1991 Defense Authorization bill proposed by Senator Sam Nunn (D-Ga.). The program is designed to encourage large defense contractors to enter voluntarily into agreements to enhance the capabilities of small disadvantaged businesses to perform in the defense subcontractor base. This would be accomplished by mentor firms imparting technical knowledge and skills to the protege firms that would allow them to compete successfully in the defense marketplace. Additionally, the program should result in an increase in the number of subcontracts awarded to SDBs. [Ref. 1:p. 630]

The House of Representatives' version of the bill did not contain any provisions similar to that proposed by Senator Nunn and contained in the Senate version [Ref. 1:p. 630]. The program was incorporated into the Defense Authorization Act by the conference committee.

The conferees believe that the Mentor-Protege program provides a flexible framework for mentor firms to develop SDBs capable of meeting available defense opportunities and should foster the establishment of stable long term business relationships. The conferees expect that mentor firms will negotiate agreements with emerging SDBs as well as more established firms. [Ref. 1:p. 630]

The goal of Senator Nunn is to increase DoD's ability to achieve the 5% procurement goal by encouraging major prime contractors through incentives as opposed to punitive measures (such as liquidated damages) [Ref. 16:p. 3]. In addition to creating additional opportunities for contracting with SDBs, this "pilot" effort is being attempted to determine if incentives are a more effective means of achieving SDB subcontracting goals, rather than "punishment" for non-compliance. [Ref. 16:p. 3]

B. PROVISIONS OF THE MENTOR-PROTEGE PROGRAM

The Mentor-Protege program was officially established on November 5, 1990 when President Bush signed P.L. 101-510. Section 831 contains the Mentor-Protege program. The provisions of the program are detailed in the following subsections:

- a. Establishment of Pilot Program
- b. Purpose
- c. Program Participants
- d. Mentor Firm Eligibility
- e. Mentor-Protege Agreement
- f. Forms of Assistance
- g. Incentives for Mentor Firms
- h. Nonaffiliation Treatment
- i. Program Participation not to be a Condition for Contract Award

- j. Duration of Pilot Program
- k. Regulations
- l. General Accounting Office Assessment
- m. Definitions [Ref. 17:sec. 831]

Subsection (a) directs the Secretary of Defense to establish a pilot program to be known as the "Mentor-Protege Program."

Subsection (b) states the purpose of the program, which is:

... to provide incentives for major Department of Defense contractors to furnish disadvantaged small business concerns with assistance designed to enhance the capabilities of disadvantaged small business concerns to perform as subcontractors and suppliers under Department of Defense contracts and other contracts and subcontracts in order to increase the participation of such business concerns as subcontractors and suppliers under Department of Defense contracts, other Federal Government contracts, and commercial contracts.

Subsection (c) identifies the program participants. Mentor firms are those firms that apply to and are approved by the Secretary of Defense for participation in the program and provide assistance to disadvantaged small business concerns. The firms that enter into agreements with Mentor firms and receive assistance are Protege firms. Under this subsection the Mentor firm may rely in good faith on a written representation of a business concern that it is, in fact, a SDB. Protests may be lodged over whether a business concern is a SDB. This subsection contains provisions for the Small

Business Administration to make determinations on those protests.

Subsection (d) contains the eligibility requirements for a contractor to be a Mentor firm. The eligibility requirements are:

1. Mentor firms must be eligible for Federal contract award;
2. During the fiscal year preceding the fiscal year in which the mentor firm enters into the agreement, the total amount of DoD contracts and subcontracts awarded to the mentor firm was equal to or greater than one hundred million dollars, or;
3. The mentor firm demonstrates the capability to assist in the development of protege firms, and is approved by the Secretary of Defense.

Subsection (e) lists the requirements for the agreement that is required between the mentor and protege firm regarding the assistance to be provided by the mentor firm. At a minimum the agreement must include:

1. A developmental program for the protege firm;
2. A program participation term;
3. Termination procedures.

The developmental program can be as detailed as the parties to the agreement think is necessary, but must contain the factors that will be used to assess the protege firm's developmental progress under the program as well as the

anticipated number and type of subcontracts to be awarded to the protege firm.

The program participation term cannot exceed five years, but may be renewed, upon its expiration, for an additional term not to exceed four years.

Termination procedures should address voluntary termination by one or both parties and procedures for the mentor firm to terminate the agreement for cause.

Subsection (f) lists the following forms of assistance that a mentor firm may provide a protege firm under a Mentor-Protege agreement:

1. General business management including organizational, financial, and personnel management, as well as marketing business development and overall business planning;
2. Engineering and technical assistance in areas such as production, inventory control and quality;
3. Non-competitive contract award under DoD or other contracts;
4. Payment of progress payments under subcontracts, payment not to exceed 100% of costs incurred by the protege firm;
5. Advance payments under subcontracts;
6. Loans;
7. Cash in exchange for ownership interest in the protege firm, not to exceed 10% of total ownership interest;
8. Assistance obtained by the mentor firm for the protege firm from one or more of the following:

- small business development centers
- entities providing procurement technical assistance
- HBCUs or MIs of higher learning.

Subsection (g) provides incentives available to the Mentor firms for participating in the program. The program provides mentor firms with reimbursement for the costs associated with assistance provided under the program as well as the total amount of any progress payments or advance payments made under the program to protege firms in connection with DoD contracts awarded to mentor firms. The vehicle for payment of the above costs is to be either a DoD contract with a mentor firm to provide products or services or another contract entered into between the Secretary of Defense and the mentor firm providing for the reimbursement of costs incurred under the program.

Mentor firms may receive credit toward the attainment of their goals for subcontract awards to SDBs for unreimbursed costs incurred in providing developmental assistance to protege firms. The amount of credit given to a mentor firm for any unreimbursed cost shall be equal to:

1. four times the cost attributable to assistance provided by small business development centers, HBCUs and MIs, and entities providing procurement technical assistance;
2. three times the total amount of such costs attributable to assistance furnished by the mentor firm's employees and;
3. two times the total amount of any other allowable costs.

This subsection also allows the Secretary of Defense to adjust the amount of credit given a mentor firm if it is determined that the firm's performance regarding the award of subcontracts to SDBs has declined without justifiable cause.

For purposes of the Small Business Act, subsection (h) prevents a protege firm from being considered an affiliate of a mentor firm solely on the basis that the protege firm is receiving assistance under this program.

Subsection (i) prohibits a mentor firm from requiring a SDB to enter into a Mentor-Protege agreement as a condition for being awarded a contract by the mentor firm.

Subsection (j) establishes the timeframe that firms can enter into a Mentor-Protege agreement, it commences on October 1, 1991 and ends on September 30, 1994.

Subsection (k) directs the Secretary of Defense to prescribe regulations to carry out the pilot Mentor-Protege program. The proposed regulations were published in the Federal Register on May 2, 1991 for general review and comment. Final regulations must be promulgated in July 1991 (270 days after enactment).

Subsection (l) directs the General Accounting Office to conduct an evaluation of this program. The report will be furnished to the Committees on Armed Services and Small Business of the Senate and House of Representatives by February 1, 1994. It will cover the period 1 October 1991 through 30 September 1993.

Subsection (m) contains the standard definitions for small disadvantaged business related terms used in the sections. The definitions contained in this subsection are those that have been established in previous legislation (i.e. Small business Act).

C. INTENT OF CONGRESS IN ESTABLISHING THE MENTOR-PROTEGE PROGRAM

Senator Sam Nunn described the Mentor-Protege program as a private sector 8(a) program that could reach many more SDBs and should not be affected by the inflexibility and over-regulation that usually plague Government programs. [Ref. 18:pp. 24-25]

The primary intent of the Mentor-Protege program is to increase the opportunity for SDBs to participate in DoD procurement. In the conference committee report, the conferees emphasized that the success of this program will be measured largely by whether the number of subcontracts awarded to SDBs increases. [Ref. 1:p. 632]

In subsection (c), Congress established qualifications required for protege firms. A Protege firm must be a SDB as defined in the Small Business Act, may not be suspended, debarred or otherwise ineligible for the award of a Government contract. The SDB may self-certify itself as an SDB, and the Mentor firm may rely on the written representation by a prospective protege firm as to its status. Congress intends

that protests of this self certification be submitted in accordance with procedures that were put into place by P.L. 99-661. Mentor firms are allowed to provide developmental assistance during a protest, but if a protege firm is found to be ineligible to participate in the program such assistance is not reimbursable. [Ref. 1:p. 630]

Congress provided for two groups of firms to be eligible to participate as mentor firms: (1) contractors that did at least 100 million dollars in DoD business the previous year; and (2) other firms as provided by the Secretary of Defense in the program implementing regulations. The conferees intended that these regulations would stimulate interest in this program from graduates of the Small Business Administration section 8(a) program and other successful minority enterprises to participate as mentor firms. [Ref. 1:p. 630]

Subsection (e), the Mentor-Protege agreement, and subsection (f), Forms of Assistance, would provide for the negotiation of an agreement that will set forth the business relationship between the parties and the types of developmental assistance that the mentor firm will provide. It was intended that the developmental agreement include mutually agreed upon factors that would be used to measure the protege firm's progress under the program as well as parameters concerning the number and type of subcontracts the protege firm may anticipate being awarded. [Ref. 1:p. 630]

Because this is a voluntary program, the conferees consider it essential that the Mentor-Protege agreement specify the procedures the parties will follow should termination of the agreement become necessary. Regarding terminations for cause, Congress expects that the agreement will include a provision that copies of all communications dealing with such terminations will be sent to the DoD Office of Small and Disadvantaged Business Utilization and should require the mentor firm to furnish written notice of the proposed termination and the reasons therefor 90 days before the effective date of the termination [Ref. 1:p. 631]. The conferees stressed that nothing in subsection (e) shall be construed as requiring a contract between a mentor and protege to be terminated or impaired because of a decision to end a mentor-protege agreement between them. [Ref. 1:p. 631]

Congress established credit for costs associated with protege development because they felt that some protege firms may require more developmental assistance than can be reimbursed in the current budgetary environment [Ref. 1:p. 631]. The conferees intend that these credits may be applied against the SDB's contract participation goal specified in the mentor firm's individual contracts or the goal negotiated on a company-wide or division-wide basis with DoD [Ref. 1:p. 631]. The conferees wanted to ensure that the credit granted for developmental costs did not detract from the mentor firm's attainment of its goals for the actual award

of subcontracts. To prevent this from occurring, they authorized the Secretary of Defense to adjust the amount of credit that the mentor firm may receive for these costs. The mentor firm's performance will be measured against a baseline which will be detailed in the implementing regulations issued by DoD. The conferees expect that the Defense Department will exercise vigorous oversight to prevent the use of this credit for unreimbursed costs in a manner that will result in the decrease in the number of subcontracts awarded to SDBs [Ref. 1:p. 632].

D. INITIAL DOD POLICY GUIDANCE

Proposed guidance for implementing the Mentor-Protege program was published in the Federal Register on May 2, 1991 by the Department of Defense. The guidance states that this program is a test program and the number of participants will be limited so that the concept can be properly evaluated [Ref. 19:p. 20318]. DoD intends to solicit for program participation once funding is available for the program.

Companies that are interested in becoming mentor firms will have sixty days after DoD's announcement of the program to submit their requests to the Office of Small and Disadvantaged Business (OSDBU), Office of the Under Secretary of Defense (Acquisition). The documentation required in the package includes:

1. A request to become a mentor,
2. A signed mentor-protege agreement,
3. Proposed costs of the developmental assistance to be provided to the protege firm,
4. An advance agreement proposal on the treatment of developmental assistance costs. [Ref. 19:p. 20318]

OSDBU will review and approve all submitted documents except the advance agreement. The entire package will then be forwarded to the cognizant contracting officer, with whom the prospective mentor firm will negotiate the advance agreement. Approval to participate in the program is not final until the advance agreement has been negotiated and approved by the contracting officer. [Ref. 19:p. 20318]

Mentor-Protege documents submitted to OSDBU will be evaluated on the following criteria:

1. Intent to increase the number and dollar value of subcontracts awarded to protege firms;
2. Intent to concentrate on the development of the protege firm(s) on a single major system, a service or supply program, research and development programs, initial production or mature systems, or in the total contract base;
3. The extent to which emerging SDBs are identified as protege firms;
4. The extent to which the mentor's developmental assistance program for the protege firm will result in an increase in subcontracting to the protege firm;
5. Ideas that will be explored to ensure the protege firm(s) remain or become competitive and not unduly reliant on the mentor firm in the long run. [Ref. 19:p. 20319]

The proposed guidance includes eligibility requirements for a protege firm. A company may qualify as a protege firm if it is:

1. A SDB as defined in the Small Business Act;
2. Not suspended, debarred, or other wise ineligible for award of a government contract;
3. A small business according to the SBA size standard in the Standard Industrial Code (SIC) which represents the contemplated supplies or services to be provided by the protege firm to the mentor firm. [Ref. 19:p. 20319]

While the legislation does not discuss the number of mentor firms with whom a protege firm may enter into an agreement, the initial DoD policy limits the protege firm to having only one active mentor-protege agreement in place.

Mentor firms will be responsible for selecting their protege firms. If a mentor firms desires to enter into more than one Mentor-Protege agreement, initial regulations require that the mentor firm select a number of protege firms that are defined as emerging equal to those that are more advanced in development. [Ref. 19:p. 20319]

The request for approval as a mentor firm must contain the following:

1. A statement that the company is an other than small business concern performing under DoD contracts with subcontracting plans negotiated by DoD;

2. The total dollar amount of DoD contracts and subcontracts received during the two preceding fiscal years (broken out separately);
3. The total dollar value of all subcontracts awarded and the number and percentage of awards made to SDBs under DoD contracts during the two previous fiscal years;
4. Dollar value of subcontract awards made to protege firms during the two previous fiscal years (if any);
5. Information on the ability to provide developmental assistance to enhance the capabilities of the identified protege firm(s), and an indication as to how such assistance will result in increased subcontract awards to the protege firm(s);
6. The company's concept for participating in the program;
7. A statement that the company is eligible for the award of Government contracts. [Ref. 19:p. 20319]

The signed Mentor-Protege agreements submitted for approval under the program shall include:

1. The name, address and telephone number of the mentor and protege firms and a point of contact in the mentor firm who will administer the developmental assistance program;
2. The SIC code which represents contemplated supplies or services to be provided by the protege firm and a statement that the protege firm's size does not exceed the appropriate SIC code;
3. A developmental program for the protege firm including:
 - assistance to be provided to protege firm
 - assessment factors to be used to measure protege progress
 - anticipated number and type of subcontract to be awarded the protege firm;

4. A program participation term not to exceed five years. Mentor firms seeking cost reimbursement shall not submit for approval agreements that exceed the term of the contracts under which developmental costs will be allocated;
5. Procedures for the mentor firm to notify protege(s) of its intent to withdraw from the program voluntarily. These procedures must provide for a 60 day advance notice in writing to the protege firm(s);
6. Procedures for a protege firm to terminate the agreement voluntarily which provide for 30 days advance written notice to its mentor firm;
7. Procedures for the termination of a Mentor-Protege agreement for cause by the mentor firm that includes:
 - written notice of proposed termination stating specific reasons for such action, not later than 90 days in advance of the effective date of termination,
 - a 30 day time period for the protege to respond to the proposed termination by rebuttal of any findings believed to be erroneous and/or submittal of a remedial program,
 - prompt consideration of the protege's response that will result in either withdrawal of the termination notice or the issuance of the termination notice. The decision of the mentor firm, conforming with the requirements of this section, shall be final.
8. Procedures for the termination of individual elements of developmental assistance;
9. Any additional terms and conditions as may be agreed upon by both parties. [Ref. 19:p. 20320]

The preliminary guidance issued by DoD contains all the authorized forms of assistance as delineated in the legislation. The regulations encourage mentor firms to authorize advance payments under agreements as a method for

protege firms to finance the performance of contracts awarded them by their mentor firms. [Ref. 19:p. 20320]

Prior to being approved as a mentor, a firm must negotiate a proposed advance agreement. The negotiations are conducted between the prospective mentor firm and the cognizant contracting officer in accordance with FAR 31.109(e), Advance Agreements. The proposed advance agreements must contain the name and telephone number of the appropriate PCO or ACO and state whether the company is seeking reimbursement of costs for developmental assistance, credit against SDB subcontracting goals, or a combination of both. Negotiations can commence upon receipt of the mentor-protege documents by the contracting officer from OSDBU. The contracting officer may delegate the authority to negotiate to the ACO. Applicable contracts must be modified in accordance with the new DFARS 219.7104-2(b), Contracting Officer Responsibilities. [Ref. 19:p. 20320]

The proposed regulations stipulate that reimbursement can only be made under a negotiated advance agreement. The mentor firm can be reimbursed for the total amount of any advance payment or progress payment made to a protege firm in connection with a DoD contract. A mentor firm will also be reimbursed for developmental assistance costs in accordance with the advance agreement and through a separately priced contract line item. However, the regulations specifically prohibit any profit to be realized by the mentor firm through

the reimbursement of developmental assistance costs under the program. [Ref. 19:p. 20321]

The regulations address providing credit towards SDB subcontracting goals for costs that are not reimbursed under the program. The amount of credit to be granted is in accordance with the language in the legislation. The regulations specify that credits toward SDB goals be separately identified from the actual subcontracts awarded to SDBs. The regulations also provide for adjustments to credit granted:

1. If a mentor firm's performance in the attainment of its SDB subcontracting goals through actual awards declined from the prior fiscal year without justifiable cause;
2. If OSDBU determines that imposition of a limitation on credit is warranted to prevent abuse of this incentive by a mentor firm.

The mentor firm will have the opportunity to explain the decline prior to the imposition of any such limitations. The following factors will be considered by OSDBU prior to making the final decision to impose limitations on future credit:

1. The firms current overall participation rates as compared to those rates during the two fiscal years prior to admission in the program;
2. The firm's aggregate prime contract awards during the prior two fiscal years and the total amount of subcontract awards under such contracts; and
3. Such other information the mentor firm may wish to submit. [Ref. 19:p. 20321]

The regulations state that decisions made with regard to the imposition of credit limitations shall be final.
[Ref. 19:p. 20321]

The Federal Register also contains proposed changes to the Department of Defense, Federal Acquisition Regulation Supplement. Part 219-Small Business and Small Disadvantaged Business Concerns will incorporate a new subpart 219.71, Mentor-Protege Pilot Program. Subpart 219.71 will contain the following sections:

- 219.7100 Scope.
- 219.7101 Policy.
- 219.7102 Definitions.
- 219.7103 General.
- 219.7104 Procedures.
- 219.7104-1 General.
- 219.7104-2 Contracting officer responsibilities.
- 219.7105 Advance agreements on the treatment of developmental assistance costs.
- 219.7105-1 General policy.
- 219.7105-2 Advance agreements addressing reimbursement.
- 219.7105-3 Advance agreements addressing credit.
- 219.7105-4 Advance agreements addressing both reimbursement and credit.
- 219.7106 Contract clause.

2. SUMMARY

This chapter discussed the elements of the Mentor-Protege program, the intent of Congress with regard to this program, and the proposed DoD guidelines implementing the program. The Mentor-Protege program is designed to incentivize large DoD contractors to establish business relationships with SDBs and assist them in becoming viable members of the industrial base. The incentives include reimbursement for costs incurred in assisting protege firms, credit towards SDB subcontracting goals for costs not reimbursed and a combination of both.

Congress intends that this program increase the number of subcontracts awarded to SDBs and that the incentives do not take the place of actual contract awards. This program will be used by Congress to determine if incentives are more effective than punitive actions in reaching SDB subcontracting goals.

The preliminary regulations provide in more detail the documentation requirements and procedures for implementing a Mentor-Protege program. These regulations also limit the protege firm to one Mentor-Protege relationship and encourage the use of one particular form of assistance, advance payments to protege firms, that is contained in the program. In addition to establishing the policy guidance for the Mentor-Protege program, the preliminary regulations address the changes to the DFARS required to support this program. The changes are represented as a new subpart 219.71 to the DFARS.

The next chapter will discuss the existing Small Business related organization and operations within the CONVAIR Division of General Dynamics, their perceptions of the Mentor-Protege program and possible barriers to implementation of a Mentor-Protege program within the CONVAIR Division.

IV. CONVAIR DIVISION AND THE MENTOR-PROTEGE PROGRAM

A. INTRODUCTION

The success of the Mentor-Protege pilot program depends on the active participation of major DoD contractors. This chapter will discuss the existing procurement organization and procedures of the CONVAIR Division of General Dynamics as they relate to small disadvantaged business utilization, their current efforts towards achieving their SDB subcontracting goals as required by P.L. 99-661, and their perceptions of the Mentor-Protege program. An analysis will be made of the current organization and the changes that may be required to implement a Mentor-Protege program. The final section of this chapter will discuss the possible barriers that may exist to prevent the successful implementation of the program.

B. ORGANIZATION, POLICY, AND PROCEDURES

The CONVAIR Division of General Dynamics is a major DoD contractor that did approximately \$325 million worth of business with the Government in calendar year 1990. Of that total, \$12.6 million, or 3.9% was awarded to SDBs [Ref. 20:p. 1]. The primary product of CONVAIR Division is the production and depot level repair of cruise missiles for the Department of Defense.

The group that supports and promotes the utilization of both small businesses and small disadvantaged businesses by CONVAIR is the Socioeconomic Programs branch which is comprised of three positions:

1. Small Business Liaison Officer
2. Small Business Administrator
3. Small Business Coordinator [Ref. 21:p. 3]

The Socioeconomic Programs branch reports to the Material Acquisition Director who, in turn, reports to the Vice President of Operations. [Ref. 22:p. 3]

The Socioeconomic Programs is a staff function that provides support to approximately 120 buyers. The buyers are organized along the following commodity lines:

1. Facilities
2. Castings/Forgings
3. Electronic Components
4. Raw Materials
5. Engineering Programs
6. Systems Components
7. Engineering Support
8. Fabrication
9. Advanced Programs. [Ref. 21:p. 2]

Procurements made by these buyers can be grouped into three basic categories:

Major subsystems	77.7% (of dollars)
Raw materials	12.7%
General procurement	9.6% [Ref. 23:p. 34]

During 1990, CONVAIR Division made procurements from the following types of business:

Small business	53.5% (of suppliers)
Large business	31.7%
SDBs	9.0%
Women-owned business	5.5%
Foreign business	0.3% [Ref. 23:p. 33]

CONVAIR Division, as well as the entire General Dynamics Corporation, is governed by a policy that supports SDBs in their effort to grow and prosper. Affording competitive opportunities to SDBs to provide the goods and services purchased by CONVAIR Division is an integral part of their material management philosophy. [Ref. 24:p. 1]

CONVAIR's SDB program is a company-wide program based on the following 15 "elements of excellence:"

1. Specific written policy and procedures,
2. Proper program staffing level,
3. Program reporting to top management,
4. Participation in trade fairs and conferences,
5. SDB certification procedures,
6. Executive management support,
7. Solicitation and performance goals,

8. SDB training seminars,
9. Buyer training on SDB program,
10. SDB supplier recognition,
11. Buyer incentive program,
12. Outreach efforts and activity with:
 - Industry/government associations
 - Regional purchasing councils,
13. SDB program records and correspondence files,
14. SDB "Help" committee,
15. Promotional aids and publications. [Ref. 22:p. 11]

CONVAIR successfully incorporated these 15 elements into their small disadvantaged business program. Their program has enjoyed significant success over the years, having been rated "outstanding" by the Defense Contract Management Area Operations (DCMAO) and the Small Business Administration seven years in a row [Ref. 24:pp. 2-3]. The following paragraphs will briefly discuss how these "elements of excellence" have been implemented by CONVAIR.

CONVAIR employs a variety of venues to promulgate its policies and procedures regarding small disadvantaged business utilization. SDB guidance is contained in CONVAIR's Master Subcontracting Plan, Procurement Instruction Manual, Desk-Top Procedures for Buyers, Departmental instructions and the Small Business Development Charter. [Ref. 25:p. 6]

Since it is incumbent upon a large group of decentralized buyers to award contracts to SDBs, proper staffing of the

Small Business programs office has been essential to effectively monitor SDB activity, train buyers, as well as serve as the initial point of contact for SDB concerns trying to "get in the door" at CONVAIR.

P.L. 99-661, which established the 5% goal for contracting with SDBs, has resulted in top-level corporate interest in SDB utilization. The General Manager of CONVAIR is responsible for reviewing and signing all SF 295s, Summary Contract Reports, which report all dollar value and percentage of subcontracts awarded to SDBs. Also, twice a year CONVAIR submits a small business program summary report to corporate headquarters. This report includes:

1. Number and dollar value solicited from, but not awarded to SDBs;
2. Description of awards placed with SDBs;
3. SDB training sessions conducted;
4. SDB trade fairs/conferences attended;
5. Special management, technological, or financial assistance provided to SDBs;
6. New SDB suppliers. [Ref. 22:p. 16]

CONVAIR's Small Business program personnel participate in all significant small business and trade events in the local area. This year they have participated in Southern California Small Business Utilization Council meetings, DCMO prime contractor workshop, monthly Rotary Club meetings, California

Supplier Improvement Program workshop, and hosted staffers from the House Armed Services Committee. [Ref. 20:pp. 2-3]

To ensure that SDBs are capable of providing goods and services required by CONVAIR, they have developed a vendor certification/capabilities screening program for SDBs. The SDBs complete the forms, describing their capabilities, and certifying that they are, in fact, SDBs. The forms are forwarded to buyers who are expected to solicit the SDBs on buys for which they are qualified. The buyers are also responsible for arranging qualification surveys of SDBs by CONVAIR engineers and Quality division personnel when required. [Ref. 26]

The executive management commitment to SDB utilization is evidenced by the Small Business Development Committee they have established. The membership of this committee is made up from the various department and functional areas within CONVAIR and their purpose is to increase both opportunities and procurements with SDBs. [Ref. 25:p. 6]

As previously stated, it is the responsibility of the buyers within CONVAIR to make awards to SDBs. To this end, goals are established at both the buying division and individual buyer level for both solicitations and commitments to SDBs. [Ref. 25:p. 6]

A successful SDB program requires an active training program for both buyers and SDBs. CONVAIR's Small business programs personnel conduct annual training with all buyers and

use seminars, conferences, and trade fairs as forums to provide training and information to SDBs. [Ref. 26]

In order to bring more visibility to successful SDBs, CONVAIR and General Dynamics have established an annual SDB scholarship program that allows a selected SDB executive to attend the Amos Tuck Minority Business Program at the expense of General Dynamics. [Ref. 22:p. 15]

In addition to its widely publicized commitment to SDB utilization, CONVAIR has also implemented a quarterly incentive award program for buyers who demonstrate "outstanding support" of SDBs. Awards are made in the following categories:

1. Most SDB dollars awarded,
2. Most SDB awards placed,
3. Most dollars awarded to new SDB firms,
4. Most awards to new SDB firms,
5. Most SDBs solicited, and
6. Best SDB efforts. [Ref. 27]

The winners each receive \$50 savings bonds.

General Dynamics, as a corporation, also recognizes individuals who make exemplary contributions to the increase of SDB business. On an annual basis, each division submits a nominee whom they feel has done the most to promote SDB utilization to corporate headquarters. Each divisional nominee receive plaques and certificates of accomplishment and the

winner receives cash/merchandise awards and is featured in the corporate newsletter. [Ref. 22:p. 13]

CONVAIR, through their Small Business program, aggressively seeks new SDB sources through their outreach efforts. Small Business program personnel hold membership in Government/industry associations such as the Rotary club and the San Diego Minority Supplier Development Council. They solicit new SDBs at all public forums, through the mail, and on an individual basis. CONVAIR also subscribes to the SBA's Procurement Automated Source System (PASS), a computerized directory of small businesses and SDBs that are interested in pursuing work with the Government and prime contractors. CONVAIR shares this service with non-subscribers in both Government and industry. [Ref. 27]

Documentation of the SDB program within CONVAIR has taken on new significance with the enactment of P.L. 100-656 which requires that prime contractors be charged liquidated damages for failure to attain, or make a good faith effort to attain, subcontracting goals for small disadvantaged business utilization. CONVAIR documents their SDB program in a variety of ways, through meeting minutes for public events attended; internal "outreach audit forms" prepared by buyers to document assistance provided to SDBs; the company's automated Procurement On Line system which documents procurement related statistics; and their Supplier Tracking and Rating System that monitors quality, delivery performance, cost performance and

management of SDBs and all other suppliers that do business with CONVAIR. [Ref. 26]

As mentioned previously, CONVAIR has established a formal Small Disadvantaged Business Development Committee whose purpose is to:

... provide assistance to qualified or qualifiable SDB sources in such areas as technology, management, manufacturing techniques, quality control, finance, bid preparation, legal, guidance in securing financial aid and other assistance... [Ref. 25:p. 11]

The final element of excellence is the use of promotional aids and publications. CONVAIR publishes a quarterly Small Business Outlook newsletter that provides current small business related information, reports on company participation in small business related events, and future issues and programs that impact their small business program. CONVAIR also publishes informational brochures for SDBs that describe the areas of technology and types of products required that SDBs may be able to provide. [Ref. 26]

The Small Business program at CONVAIR is an effective tool used to identify potential SDB sources, educate and inform SDBs interested in doing business with CONVAIR, and monitoring SDB utilization. However, the program does not cover specific steps that should be taken to facilitate awards to SDB contractors. Through the Small Disadvantaged Business Development Council, CONVAIR has established the following 13 step approach to increase opportunities for SDB participation:

1. Involve Small Business program personnel as early as possible in programs with potential for SDB contracting.
2. Develop specifications that promote competition, not restrict it.
3. When possible, split major tasks into smaller, less restrictive tasks.
4. Target certain tasks for SDBs.
5. Improve communication between Engineering and procurement.
6. Be supportive of prospective SDB suppliers seeking information on CONVAIR requirements.
7. Involve all departments in SDB subcontracting efforts.
8. Re-evaluate high technology components to determine if they can be manufactured by SDB firms.
9. Include HBCU&MIs in research and development solicitations, teaming arrangements, training, grants, student recruitment, summer employment and other types of cooperative arrangements.
10. Members of the Development Council should provide counselling on matters regarding SDBs within their departments.
11. Participate in trade fairs, SDB conferences and symposiums.
12. Qualify new SDB sources through the CONVAIR Quality Control and Engineering approval systems.
13. Identify new commodities that can potentially be procured from SDBs. [Ref. 25:p. 7]

Through their Small Business program and the above mentioned steps, CONVAIR is able to "get the message out" regarding its commitment and desire to use SDBs to the maximum extent possible and provide an environment within the company

that promotes SDB utilization. The next step is to actually identify and use SDB sources for goods and services required.

CONVAIR has three primary sources for expanding its SDB vendor base. They are:

1. Walk-in/phone-in traffic,
2. Conferences, symposiums, trade shows
3. Referrals. [Ref. 27]

The majority of SDBs with whom CONVAIR does business are those that approached CONVAIR on their own [Ref. 27]. They usually contact the Small Business office and are provided with a CONVAIR buyer directory, an initial indication whether their product or service is required, and information on those products and services for which a known company requirement exists. [Ref. 27]

The next most common entry into CONVAIR for SDBs is through public events such as conferences, workshops, and symposiums where CONVAIR will set up information tables/booths and advertise their requirements to a large gathering of business people.

The third method of acquiring new SDB sources is through referrals. CONVAIR receives referrals from other divisions of General Dynamics that have had success with a particular company. CONVAIR has established excellent relationships with DCMAO and receives referrals from that source as well as from the local Chamber of Commerce. Another valued source of

referrals is the General Dynamics field expeditors that are located throughout the country to monitor lower tier contractors. These referrals are important sources because the firms that they recommend are usually dependable, qualified suppliers with good records of performance. [Ref. 26]

Once a SDB has become part of CONVAIR's vendor base, it is eligible to receive solicitations for bids on products and services required by the division. Each SDB is required to compete with all other bidders for those requirements [Ref. 26]. SDBs receive no preferential treatment in the bidding process and their performance is monitored and evaluated in the same manner as CONVAIR's other vendors. [Ref. 27]

CONVAIR's Small Business Liaison Officer described the overall performance of SDBs to be "average", however, he noted that the more established firms perform very well. [Ref. 26]

He also noted that there are five factors that significantly hinder the ability of SDBs to compete successfully for CONVAIR business. These factors are:

1. "Overwhelming" paperwork requirements,
2. CONVAIR's high technology requirements,
3. SDB cashflow limitations,
4. Competition with larger firms for the same requirements,
5. Bonding/insurance requirements for handling hazardous material. [Ref. 26]

Since CONVAIR is a DoD contractor, it is required to provide a high level of documentation that is required by Government legislation, DoD regulation, and contract specifications and adata requirement lists. These requirements are passed down to subcontractors when awards are made. In many cases, SDBs do not have the knowledge, expertise or personnel resources to support this level of documentation. Also, the solicitation process and the detailed requirements CONVAIR needs in its proposals are often beyond the means of many SDBs. The Small Business Liaison Officer stated simply that "it is expensive to do business with CONVAIR." [Ref. 26]

Another difficulty encountered by SDBs is that many of CONVAIR's requirements are very advanced technologically. Examples of current areas of interest include:

1. Microelectronic circuit design and integration;
2. Parallel computer architecture;
3. Computational fluid dynamics;
4. Machine intelligence/robotics;
5. Composite materials; and
6. Hypersonic aero/fluid dynamics.

Very few SDBs have the resources or technical expertise to compete successfully in areas such as these. [Ref. 26]

Because CONVAIR deals in multi-million dollar contracts, their subcontract requirements that can be met by SDBs may be so large that they could strain the SDBs equipment

capabilities and financial resources. CONVAIR requirements may be such that to be qualified an SDB would have to invest in additional equipment or buy more material than their financial situation may permit, forcing them to forego that business opportunity. [Ref. 26]

CONVAIR requires SDBs to compete for their contract awards. It is not unusual for SDBs to find themselves competing with much larger firms for the same requirement. For example, SDBs must compete with Boise Cascade for CONVAIR's stationery requirements. Because large businesses such as Boise Cascade have the advantages of both economies of scale and a significantly broader customer base than SDBs, they have a decided advantage in price competition with SDBs. [Ref. 27]

The growth in concern for the environment has resulted in increased regulations governing the handling, use and disposition of hazardous material. SDBs do not have the expertise to handle hazardous material or the financial resources for bonding or insurance against environmental damage that may result from working with hazardous material. As a result, SDBs do not generally compete for CONVAIR requirements that include the use of hazardous material. [Ref. 26]

This section has discussed the current CONVAIR organization and policies as they relate to their SDB contracting efforts. The next section will present CONVAIR's

perceptions of the Mentor-Protege program and the possible impact its implementation may have on the organization.

C. CONVAIR'S PERCEPTIONS OF THE MENTOR-PROTEGE PROGRAM

The Mentor-Protege program is unique in that it places a significant part of the responsibility for SDB development on the mentor firm. For a program such as this to succeed, the commitment of the mentor firms is essential. To determine if this program can be successfully implemented within CONVAIR, this section will analyze the initial perceptions of CONVAIR personnel who would be responsible for the initial implementation of a Mentor-Protege program (the Small Business programs personnel) and the ability of the current organization to adapt itself to the program.

The Mentor-Protege program, as it currently exists, has three basic components that will impact CONVAIR:

1. Assistance to the protege firm,
2. Incentives for the mentor firm,
3. Preliminary procedures for program implementation.

The assistance that the mentor firm provides the protege firm is the foundation on which this program is built. The forms of assistance can be categorized in the following manner:

1. Technical assistance - this assistance comes from the functional experts within the mentor firm in

the areas of general business, marketing, business planning, financial management, engineering, and technical matters such as production, inventory control and quality.

2. Financial assistance - this assistance comes in the form of progress payments, advance payments, loans, and non-competitive contract awards.
3. Management assistance - this assistance allows the mentor firm to obtain ownership interest in the protege firm, not to exceed 10%.
4. Facilitation assistance - this assistance is provided by third party resources, such as small business development centers, that are arranged by the mentor firm.

The Small Business Liaison Officer perceives the majority of the assistance included in the Mentor-Protège program as "business as usual [Ref. 26]." CONVAIR's Small Disadvantaged Business Development Council was established to create a cadre of company personnel to provide the technical assistance included in the Mentor-Protège program.

With regard to financial assistance, CONVAIR has a history of working closely with their SDB suppliers and assisting them with their financial needs. Progress payments have been made in the past on an exception basis and when requested. The Small Business Coordinator is usually responsible for validating the need for the progress payment and expediting it through the system. [Ref. 27]

CONVAIR currently has a policy that does not allow for the payment of advance payments [Ref. 26]. On those infrequent instances in the past when advance payments were authorized,

the company apparently experienced difficulty in obtaining the final product. In lieu of advance payments, however, CONVAIR is willing to buy material for their requirements and provide it to the SDB awarded the contract under which the material is to be used. [Ref. 26]

During the discussion of loans with the Small Business Liaison Officer, he stated that "CONVAIR is not a bank," and that the company would not consider providing loans as a form of assistance under a Mentor-Protege agreement. [Ref. 26]

Small Business programs personnel do not see any benefit to either CONVAIR or the prospective protege firm in having the mentor firm obtain up to 10% ownership in the protege firm and do not expect that they would be willing to provide that type of assistance under the program. [Ref. 26]

The Small Business programs personnel believe that their active participation in the community through their membership in Government/industry associations and their various outreach programs make CONVAIR an ideal facilitator for finding outside, specialized assistance for SDBs. [Ref. 26]

CONVAIR personnel ranked their preference for providing the assistance contained in the Mentor-Protege program in the following order:

1. Facilitation
2. Technical

3. Financial

4. Management

The next component of the Mentor-Protege program that impacts prospective mentor firms are incentives. The incentives come in two forms, reimbursement of costs related to development assistance and credit towards SDB contracting goals for unreimbursed developmental assistance costs. CONVAIR personnel view this as the most critical part of the program [Ref. 26]. The current economic and political climate has caused CONVAIR to project a reduction in DoD business. In this era of reduced military spending and downsizing, CONVAIR is not willing to invest its limited financial resources in establishing a Mentor-Protege program. [Ref. 26]

Although the credit for unreimbursed costs does not appear to be enough to incentivize CONVAIR to commit to the program, the Small Business Liaison Officer acknowledged that such credit would definitely improve their SDB statistics. [Ref. 27]

When questioned about the ability of the current accounting and financial systems to capture the costs associated with a Mentor-Protege program, CONVAIR personnel did not consider it to pose any problems whatsoever. [Ref. 26]

The final area that would impact CONVAIR is the administrative procedures that are contained in the preliminary regulations promulgated by DoD governing program

implementation. The most significant administrative requirement is the request package that must be submitted by the prospective mentor firm to the Office of Small and Disadvantaged Business Utilization, USD(A). The package must include:

1. A request to become a mentor firm,
2. A signed mentor-protege agreement,
3. Proposed costs for developmental assistance,
4. A proposed advance agreement on the treatment of developmental costs.

CONVAIR personnel believe that this requirement demands significant up front effort and expense [Ref. 26]. Since the application requires a signed Mentor-Protege agreement, CONVAIR must first find the right company. The basic factors that would be used to select an initial protege firm would be:

1. Location: the protege firm would have to be local to CONVAIR for ease of program administration.
2. Product line: this would have to be one that would survive. The nature of this program is one that would evoke a sense of ownership by CONVAIR as the mentor firm. A significant amount of effort would be made to select a protege that would be highly successful.
3. Management team: the selected protege would have to have a management team that could work closely with CONVAIR personnel. [Ref. 26]

CONVAIR personnel also view the creation of an initial Mentor-Protege agreement as a highly complex task. They appear

to consider the agreement as something very similar to a contractual arrangement and are particularly concerned with the following items:

1. a guaranteed level of business,
2. identification and agreement on progress factors,
3. protege education requirements (TQM, SPC, EDI),
4. quality program,
5. business/financial systems,
6. contracting strategy,
7. payment schedules. [Ref. 26]

CONVAIR personnel believe this program should be used to develop emerging SDBs, but they feel the initial program requirements could result in prospective mentor firms selecting more established SDBs for ease in establishing a Mentor-Protege agreement and to ensure program success. [Ref. 27]

CONVAIR's current organization seems to be particularly well-suited for participation in the Mentor-Protege program. Their Small Disadvantaged Business Development Council contains virtually all the expertise necessary to select prospective protege firms, develop initial Mentor-Protege agreements and provide the assistance contained in that agreement. The current management information systems are able to capture the costs that would be associated with the program to facilitate reimbursement. Furthermore, CONVAIR as an

organization, understands the importance of small disadvantaged business utilization and is committed to its goals of furthering SDB participation to the maximum extent possible.

Although the current organization, policies and procedures of CONVAIR provide an environment that may be favorable towards successful implementation of a Mentor-Protege program, there are several significant factors that could reduce the effectiveness or prevent CONVAIR's participation in the Mentor-Protege program. These "barriers" to implementation will be discussed in the next section.

D. BARRIERS TO IMPLEMENTING A MENTOR-PROTEGE PROGRAM

In spite of the positive aspects for implementation of a Mentor-Protege program that exist at CONVAIR, there are several "barriers" present that could either diminish the effectiveness of the program or completely prevent its inception. These barriers cannot be ignored because the Mentor-Protege program is voluntary and if any barrier is perceived as being too difficult to overcome or mitigate, CONVAIR, or any other prospective mentor firm, could choose not to participate.

The barriers discovered through this research can be grouped into three categories:

1. Internal organizational barriers,
2. Regulatory barriers, and
3. Environmental barriers.

Internal organizational barriers are those barriers that are products of the policies and procedures within CONVAIR and are under their direct control. Regulatory barriers are those barriers that have been created by the DoD's preliminary Mentor-Protege program regulations. Environmental barriers are barriers that are outside the direct control of CONVAIR and cannot be addressed in the implementing regulations.

The internal organizational barriers to implementing a Mentor-Protege program within CONVAIR are:

1. a reluctance to invest internal financial resources to establish a Mentor-Protege program;
2. a reluctance to provide all forms of assistance that are included in the program;

The most significant barrier to implementing a Mentor-Protege program is CONVAIR's reluctance to use internal financial resources in the program. In the current budgetary environment, it is unlikely that money will be available to cover the entirety of developmental costs that would be associated with a Mentor-Protege program. CONVAIR realizes this fact of life and has recommended that the program be funded through an increase in progress payment percentage (from 90 to 93 percent) [Ref. 22:p. 18] or through tax credits

[Ref. 26]. Both of these alternatives appear to be unlikely. In the wake of the A-12 program termination, where the Government believes it has overpaid progress payments to General Dynamics and its partner in the program by some \$1.3 billion dollars, an increase in the rate of progress payments is not going to be looked upon favorably. Nor is it probable that Congress would be willing to consider tax credits in the current fiscal environment.

Another barrier to program implementation is CONVAIR's decision not to provide all forms of assistance allowed under the program. It is possible that a prospective protege firm might balk at entering into a Mentor-Protégé agreement where he is aware that some of the possible assistance to which he may feel "entitled" has been omitted from the agreement.

The next category of barriers to implementing a Mentor-Protégé program are those that have been created as part of the implementing regulations. The program is designed to provide as much flexibility as possible to the participating firms and to minimize Government intervention. However, the cost reimbursement provisions of the program have necessitated a degree of Government oversight in order to protect the interests of the taxpayer. The regulatory barriers include:

1. detailed initial request packages,
2. program duration limitations, and
3. requirement to include emergent SDBs in numbers equal to more established SDBs.

The first regulatory barrier to establishing a Mentor-Protege program is the requirement for a comprehensive and detailed request package that includes a signed Mentor-Protege agreement, proposed developmental costs broken out per year, and a proposal for the treatment of developmental costs under the program. Prospective mentor firms might shy away from the program because they may consider the initial requirements to be too detailed and stringent for a voluntary program, or because they would be unwilling to invest the time, money and personnel resources to establish a program designed to enhance an area (SDB utilization) in which they may feel they are already giving their best effort.

The implementing regulations limit the program participation term for agreements in which the mentor firm is seeking cost reimbursement to a period of time not to exceed the term of the contracts under which developmental costs would be allocated. The Mentor-Protege program permits agreements to be up to five years in length, to facilitate the development of a long term relationship between the participants, however this restriction on agreement terms tied to contract length could result in repetitive submissions of the same Mentor-Protege agreement or disruption of the relationship due to program termination by the Government or loss of contract under which costs for the program are reimbursed.

The third regulatory barrier that could limit the program's effectiveness, is the requirement for mentor firms intending to enter into more than one Mentor-Protege agreement to select an equal number of emerging and established SDBs. To ensure program success, it may be likely that prospective mentor firms will tend to use mature programs and SDBs with whom they have had successful dealing in the past when establishing a Mentor-Protege program. Until prospective mentor firms obtain experience with the program, they may be unwilling to risk entering into a Mentor-Protege relationship with an emerging SDB. Decisions to limit the use of emerging SDBs will also hinder the entry of more established SDBs who could benefit from the program.

The final group of barriers are categorized as environmental barriers. They are:

1. declining DoD budget,
2. uncertain program funding, and
3. Government directed procurement.

The first environmental barrier, the declining DoD budget, is probably a barrier to many programs, but the pressures it puts on prospective mentor firms could certainly have an adverse effect on the Mentor-Protege program. With reductions in business, the tendency of DoD contractors will be to retain as much work as possible in-house to retain their workforce and control their indirect costs. This will result in a

reduction of the vendor base, or at least reduced use of that base, which is in direct conflict with the intent of the Mentor-Protege program.

Although Congress created the Mentor-Protege program with provisions for cost reimbursement, it has not clearly identified the money to be used in support of the program. This apparent inconsistency may be viewed by prospective mentor firms as a lack of commitment for the program that could prevent them from seriously considering participation in the program, particularly since the program is voluntary and that participation involves significant up front effort on their part.

The last external barrier to implementing a Mentor-Protege program is the large number of Government directed buys that seem to be part of all major programs. In the case of CONVAIR, 77.7% of their subcontracts in 1990 went towards the purchase of major subsystems supplied by customer directed vendors [Ref. 23]. These vendors made up 32% of the suppliers used by CONVAIR in 1990. This means that 68% of their vendors (virtually all small businesses and SDBs) competed for less than 23% of CONVAIR's business. These directed buys reduce both the number of buys required by CONVAIR and the opportunity for SDB participation either on their own or as a prospective protege firm.

2. SUMMARY

This chapter reviewed CONVAIR's current organization, policy and procedures regarding their Small Business program. CONVAIR has a strong commitment to providing opportunities for SDBs and for attaining the 5% SDB subcontracting goals mandated by P.L. 99-661. The effectiveness of their program is substantiated by the "outstanding" audit ratings their program has received from Government auditors for seven consecutive years.

CONVAIR personnel's attitude toward the Mentor-Protege program is generally positive, but they are concerned about the cost of implementing such a program. They believe that most of the developmental assistance contained in the program is currently being provided to SDBs by their organization.

The final section of this chapter analyzed possible barriers to successful implementation that may exist as result of the internal policies and procedures of CONVAIR, regulatory requirements in the implementing guidance, and current environmental considerations that are not under CONVAIR's direct control or can be addressed by DoD policy makers in the regulations.

The next chapter will analyze the perceptions of the SDB community in Southern California with regard to the Mentor-Protege program.

V. SDB PERCEPTIONS OF THE MENTOR-PROTEGE PROGRAM

A. INTRODUCTION

In order to have a successful Mentor-Protege program, acceptance and participation by SDB firms is required. This chapter will assess the small disadvantaged business community's perceptions of the Mentor-Protege program and their relationship to CONVAIR. The information in this chapter was accumulated through telephone interviews with SDBs in Southern California. The SDBs were selected from CONVAIR's Directory of Small Disadvantaged Businesses.

The questions used to conduct the interviews were sent to the SDBs in advance, along with information on the Mentor-Protege program. The questions were designed to provide a brief description of firms, past experience with Government contracting, perceptions of the Mentor-Protege program, and the possible impact the program may have on future business.

B. INTERVIEW QUESTIONS AND ANALYSIS

1. Question One

What is your principal product or service?

Responses: The SDBs contacted described their principal product in the following general categories:

Machined/Precision Machined Parts	73%
Ship repair	13%
Electrical components	7%
Electronic components	7%

The products listed above are those types that are manufactured/provided in response to specific customer orders. They are not massed produced or distributed by SDBs for general public consumption. It is this type of manufacturing/fabrication capability the Mentor-Protege program has been established to improve within the SDB community.

2. Question Two

What is the approximate number of employees in your firm?

Response: The results of the interviews indicate that 53% of the SDBs had less than 10 employees, 27% had between 10 and 20 employees, and 20% employed more than 20 people. The largest company interviewed had 120 employees, the smallest 3. The median number of employees was 10.

3. Question Three

What is the approximate annual sales volume of your firm?

Response: Fifty-three percent of the SDBs had sales volumes of less than \$1 million, 33% had sales volumes between \$1 million and \$5 million, and 14% had sales volumes greater

than \$5 million. The highest sales volume reported was \$13 million and the lowest was \$45,000. The median sales volume was \$650,000.

4. Question Four

What do you consider your knowledge level of Federal Government/DoD small disadvantaged business programs to be?

Response: The SDBs were requested to describe their knowledge level as excellent, average, very little, or none. The following results were obtained:

Excellent	20%
Average	33%
Very little	40%
None	7%

5. Question Five

Have you ever obtained, or tried to obtain assistance from the Small Business Administration?

Response: Forty-seven percent of the SDBs had never tried to obtain assistance from the SBA while 13% had made unsuccessful attempts to get small business loans. Unsuccessful firms cited complicated bureaucratic requirements and insufficient capital reserves as the reasons for their lack of success in getting loans from the SBA. Forty percent of the SDBs had received some form of assistance from the SBA in the past. The following types of assistance were reported as having been received:

1. Loans
2. 8(a) program assistance
3. Certificates of Competency
4. Business Advice.

6. Question Six

What is your experience as a Government contractor or as a subcontractor to a DoD prime?

Response: SDBs were requested to describe their level of business with the Government as a minor/nonexistent, significant, or major part of their business and to estimate the percentage of their business that is related to DoD. The following result were obtained:

Major part of business	40%
Significant part of business	20%
Minor/nonexistent part of business	40%

Forty percent of the firms reported that DoD made up less than 10% of their business, one third said that 50% to 80% of their business was DoD-related, and 27% claimed that DoD made up more than 80% of their business base.

7. Question Seven

What are your future intentions with regard to DoD business?

Response: SDBs responded to this question in the following manner:

Intend to expand business with DoD	74%
Intend to reduce business with DoD	13%
Do not intend to seek DoD business	13%

A significant majority of the SDBs want to increase their business with DoD. SDBs that did not intend to seek DoD business were not interested because of the difficulty in dealing with the detailed specification requirements associated with Government work or they felt that there was not fair and open competition for Government work.

SDBs that intend to reduce their business with DoD plan on doing so because of the projected reduction in defense spending and not as a result of unsatisfactory business dealings.

8. Question Eight

How would you characterize the success of your prior business dealings with DoD?

Response: The SDBs were requested to describe their past business dealings with DoD as unsuccessful, having limited success, having moderate success, successful, or very successful. They were also asked to identify the reasons for unsuccessful business dealings. The following replies were received:

Very successful	13%
Successful	47%
Moderate success	13%
Limited success	7%
Unsuccessful	20%

SDBs that described their business dealing as unsuccessful were firms that had done minimal business with DoD. The lack of success was the result of their inability to viably compete for contract awards. They cited the complex bidding process and specifications as the reasons for failure.

9. Question Nine

Are your initial impressions of the Mentor-Protege program positive or negative?

Response: Eighty percent of the SDBs said their initial impression of the program was positive. The 20% that had a negative impression of the program were firms that intended to reduce their business with DoD or did not intend to do business with DoD at all. The reasons given for unfavorable impressions were:

1. Fear of prime meddling in SDB operations.
2. Opinion that primes only subcontract out work they do not want to do in-house.
3. Opinion that the Mentor-Protege program does not offer effective incentives for primes to use SDBs.

Analysis: The researcher believes the SDBs exhibited such a strong positive attitude toward the program because they viewed the program in the context that prospective mentor firms would be willing to do business with them; and that the prospective mentor firms would be willing to provide the assistance that SDBs desired.

The researcher expects that this enthusiasm for the program will diminish as the SDBs face the difficulties that may be encountered in establishing a Mentor-Protege program. Some of the difficulties SDBs can expect to encounter are competition among themselves for limited Mentor-Protege opportunities, unwillingness on the part of large contractors to participate in the program, and limits on assistance that prospective mentors may be willing to provide under a Mentor-Protege agreement.

10. Question Ten

Does this program appear to offer any advantages that were not already available in current legislation and regulations dealing with small disadvantaged businesses?

Response: This question was designed to have the SDBs discuss the particular forms of assistance offered under the Mentor-Protege program they viewed as the most beneficial to their business.

As discussed in the previous chapter, the assistance offered under the Mentor-Protege program can be categorized as

financial assistance, technical assistance, facilitation assistance, and management assistance. Eighty-seven percent of the SDBs said that the financial assistance would be of significant interest and benefit to their business. Progress payment was cited as the most frequently as the preferred form of financial assistance followed by noncompetitive contract awards, advances, and loans.

Technical assistance was the next most popular type of assistance, cited by 40% of the SDBs.² SDBs were interested in expert assistance in general and did not prefer any particular area or type of technical assistance.

The two remaining categories of assistance, facilitation and management, received favorable comments in general, but were not considered to be as beneficial as the financial and technical assistance.

Analysis: The researcher believes that the SDBs' strong preference for financial assistance is due to the critical role money management plays in the operation of these firms. Due to the relatively small size of their business base, SDBs are susceptible to cash flow problems. Inadequate cash flow can disrupt their operations and, in some cases, force them to forego business that they cannot "afford."

² SDBs were not limited to selecting just one form of assistance they perceived as beneficial. Several SDBs exhibited a strong preference for both financial and technical assistance so the total percentage is greater than 100.

The SDBs also experience difficulty competing for capital in the financial markets. These firms tend to have relatively small levels of equity and are considered a risk by lenders. The researcher believes SDBs view the financial assistance as a means by which they will be able to increase their business base through a consistent level of subcontract work from the mentor under the program. This increase in business coupled with possible progress payments allowed under the program could improve cash flow situations for the protege firms. Orders from the mentor firms could also be used as collateral by the SDBs to obtain capital in the financial market.

SDBs also expressed interest in the program's technical assistance. The researcher believes SDBs perceive large DoD contractors to possess a high degree of expertise in many areas from which they could benefit. The SDBs view the large contractor's expertise as credible because they do a significant amount of work with the Government.

Although the SDBs were not asked to discuss specific types of technical assistance they felt would benefit them, there was a significant level of concern with regard to administrative requirements, such as specifications, quality documentation, and proposal preparation. The SDBs are not in a position to dedicate resources to these areas and the researcher believes that prospective protege firms will look to mentors to provide support in these areas.

The researcher attributes the lack of interest in third party assistance to the SDBs lack of understanding of what form this assistance would take and where it would be coming from. The researcher suggests that financial and technical assistance was preferred because of its direct nature. The SDBs placed greater value on assistance from organizations that are doing business with the Government and with whom they would expect to do business under the program than they do on developmental support or consulting services from third party entities.

There was little interest in the limited ownership of protege firms by mentors. The researcher believes that the SDBs possess a high degree of entrepreneurial spirit that cause them to discount this type of assistance. They believe they provide quality goods and services and that a mentor partner would provide more interference than assistance.

11. Question Eleven

Why would you desire to seek a Mentor-Protege relationship with one or more DoD prime contractors?

Response: The SDBs responded to this question with a variety of answers that reflected current concerns regarding their businesses. The reasons given for wanting to become a protege firm are:

Business expansion	46%
Modernization	23%
Stabilization of work flow	15%
Cost reduction	8%
Establishment of relationship	8%

Analysis: The researcher believes the responses to this question provide insight into the SDBs perceptions of themselves and their strategy for future growth.

The researcher suggests that SDBs citing modernization, work flow stabilization and cost reduction are looking to the Mentor-Protege program to help them improve the internal operations. It seems these firms perceive they have some deficiencies that must be corrected in order for them to become more successful.

The firms that cited business expansion and establishment of business relationships seem to be taking a more external approach to future growth. These firms apparently believe they are doing business the right way and intend to use the Mentor-Protege program to establish a reputation for providing quality goods and services that will result in increased business in the future.

In conjunction with their reasons for wanting to participate in the program, the SDBs were asked to identify up to three major DoD contractors with whom they would like to enter into a Mentor-Protege agreement. The responses were varied with Lockheed, Boeing, and General Dynamics mentioned

the most frequently.³ However, there were three primary reasons given for contractor selection by the SDBs:

1. Opportunity for future work,
2. Geographic location, and
3. Prior business dealing.

The researcher believes these reasons represent the three key considerations that will determine between whom Mentor-Protege relationships will be established.

The purpose of the program is to provide subcontracts to SDBs. Unless there is an opportunity for business between participants, there would be little reason or interest on the part of SDBs to enter into a Mentor-Protege agreement.

The researcher believes that SDBs would prefer to participate in the program with a mentor within the same geographical area in order to facilitate business dealings and provide greater opportunity for mentor assistance under the program. Geographical separation could strain protege resources in its effort to maintain normal business relationship with the mentor firm. Separation could also diminish the opportunity and quality of the assistance the mentor firm would be able to provide under the program.

³ Interviews were conducted shortly after it was announced that the team of Lockheed, Boeing, and General Dynamics won the Advanced Tactical Fighter (ATF) competition.

The researcher believes that it is natural for SDBs to look to firms with whom they have had prior business dealings to establish a Mentor-Protégé agreement. An established reputation, a familiarity with prospective mentor buyers and their requirements would make establishing a Mentor-Protégé agreement much easier.

12. Question Twelve

What aspects of the program do you perceive as undesirable?

Response: Thirty three percent of the SDBs did not feel that partial ownership of their firms by a mentor firm offered any significant benefits. There were no other negative comments directed at the aspects of the program.

Analysis: The researcher believes that there was limited response to this question because the SDBs focused on the positive aspects of the program. The SDBs assumed that they would be able to participate in the program and obtain the assistance they desired under the program. Although it was not discussed, the researcher believes that the voluntary nature of the program could be considered undesirable by the SDBs. This voluntary aspect of the program permits prospective mentors to choose not to participate in the program and to arbitrarily limit the number of protégés they choose to work with. The voluntary aspect of the program gives the

prospective mentor firms a large degree of flexibility and limits the opportunity for SDBs to participate in the program.

13. Question Thirteen

What would you like to see incorporated into the program to make it more attractive to your business?

Response: There was no consensus with respect to any "missing element" that SDBs considered important. Examples of responses to this question include:

1. Concern over profit limitation under the program;
2. Accessibility of purchasing agents and contracting officers;
3. Paperwork reduction;
4. Government reliance on outdated specifications;
5. Legal assistance.

Analysis: Because there has been no actual experience with the program, the researcher believes it was difficult for the SDBs to postulate as to what could be included in the program to make it more attractive. The researcher believes that responses to this question reflect individual concerns regarding specific aspects of dealing with Government with which they have had difficulty in the past.

14. Question Fourteen

Do you think this program could affect your current attitude toward doing business with DoD or have an impact on your current commercial work?

Response: The SDBs that had a negative impression of the Mentor-Protege program did not think this program could change their attitude toward Government work. Of the SDBs that were favorably impressed by the program, 75% thought that they would take on additional Government work at the expense of their commercial work if the program was successful. The remaining 25% did not want to sacrifice any commercial work due to the uncertainty and profitability of future Government work.

Analysis: The researcher suggests that this willingness to take on more Government work at the expense of commercial business is not in response to the Mentor-Protege program. The researcher attributes this response is the result of two factors; most of the SDBs contacted already relied on Government work for a majority of their business and would consider further increases in that business as desirable; and SDBs have experienced a downturn in their commercial work as a result of the recession and they perceive Government work as more stable.

C. THE CONVAIR-SDB RELATIONSHIP

Because the Mentor-Protege program is voluntary, the decision to implement a Mentor-Protege agreement is at the complete discretion of CONVAIR. The capabilities, desires, and needs of prospective proteges are secondary to the objectives CONVAIR may have.

The researcher believes the principal motivation for CONVAIR to establish a Mentor-Protege program is the P.L. 99-661 requirement for DoD contractors to attain a 5% SDB utilization goal. If CONVAIR believes this program offers an increased opportunity to achieve this goal, they will most likely participate in the program.

Another reason CONVAIR may choose to establish a Mentor-Protege program is to further demonstrate good faith in their efforts to achieve the 5% SDB utilization goal. This good faith effort has taken on added significance, since failure to attain the goal or show good faith efforts towards attaining the goal, can result in liquidated damages being assessed.

CONVAIR could decide to implement a Mentor-Protege program to help improve their SDB utilization statistics through credit for developmental costs that are not reimbursed. The researcher does not believe that CONVAIR would start a program specifically for this purpose since it has been determined that they are already making good faith efforts towards attaining their goals and increases in percentages by means other than contract awards, is not necessary.

The researcher believes that if CONVAIR chose to participate in the program, it would do so with the intention of providing the prospective protege with a significant level of business. This statement is based on discussions with CONVAIR regarding the initial Mentor-Protege agreement. One of their concerns with an agreement under the program is the

guaranteed level of business they think the agreement should contain.

The researcher believes the level of business conducted under the program will determine the amount and type of assistance the prospective protege will receive from CONVAIR. The researcher believes that CONVAIR would be more likely to provide assistance that would be directed towards achieving specific contractual objectives than to provide developmental assistance of a general nature. Furthermore, the prospective protege firm would be in a better position to receive preferred assistance if, by providing that assistance, CONVAIR would benefit.

The researcher believes that the business provided under the program is the key to meeting the goals and objectives of the protege firms. By having contracts in place with a mentor firm, an SDB is in a position that affords him the opportunity to receive progress payments for work completed or use those orders as collateral for loans if they are required. The work provided under the program could increase the protege's business base and help improve the firm's financial condition.

The researcher also believes there are significant reasons why CONVAIR could choose not to participate in the program.

CONVAIR may not believe the Mentor-Protege program will increase their SDB utilization. They have already established procurement strategies that enhance the opportunity for SDB participation and are working established programs that

already include SDBs in the vendor base. Although CONVAIR may be able to "convert" some procurement to Mentor-Protege activity, it will be difficult to increase SDB utilization.

CONVAIR may not believe they need a Mentor-Protege program. They have already established an aggressive program for identifying and utilizing SDBs that has been rated as outstanding by the Government. It is possible they could consider the Mentor-Protege program redundant.

CONVAIR is currently reducing its vendor base. They could consider a Mentor-Protege program counter-productive to this effort or unnecessary because they could increase their business with SDBs that remain in the base.

D. SUMMARY

This chapter analyzed the perceptions of SDBs regarding the Mentor-Protege program. A significant majority of the SDBs have a favorable impression of the program and the assistance it offers. The SDBs have a strong preference for the financial assistance over the other forms of assistance available under the program. SDBs would desire to enter into a Mentor-Protege agreement to expand their business, modernize facilities and equipment, stabilize their work flow, reduce costs, and establish business relationships with prime contractors. A majority of the SDBs desire to do business with the Government and are willing to increase the level of Government work at the expense of their commercial business. Contracts provided

under a Mentor-Protege agreement would be the primary means by which protege firms would receive assistance and achieve their goals for participating in the program.

The decision to establish a Mentor-Protege program rests entirely with the prospective mentor firm. In the case of CONVAIR, the primary motivation for them to establish a Mentor-Protege program is the requirement for large contractors to attain a 5% SDB utilization goal. The capabilities and concerns of prospective protege firms will have no bearing on the decision by prospective mentors regarding program participation.

The next chapter will present the conclusions and recommendations regarding the Mentor-Protege program that resulted from this research.

VI. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

1. Conclusion One

The mentor firm plays the critical role in the success of the Mentor-Protege program. The mentor firm is responsible for identifying prospective protege firms; incorporating protege firms' capabilities into their business plans; and preparing the initial Mentor-Protege agreement. The mentor firm is required to do an analysis of projected costs under the developmental program and prepare a proposal for how those costs are to be handled. In order to be eligible to participate in the program, prospective mentor firms must forward a request, including the initial Mentor-Protege agreement and developmental cost information, to the Secretary of Defense, Office of Small Disadvantaged Business Utilization for approval.

Upon approval, the mentor firm must negotiate the handling of developmental costs under the program with the local ACO.

2. Conclusion Two

There will be limited participation in the Mentor-Protege program. There are several factors that will limit participation in the Mentor-Protege program. The projected

decline in the DoD budget and the resulting downturn in business for defense contractors is forcing those contractors to reduce their vendor base. In the case of CONVAIR, they have reduced their vendor base from 6200 firms to approximately 2800. Increasing the number of SDBs in this environment through the use of a Mentor-Protege program is going to be difficult. If major DoD contractors intend to establish a Mentor-Protege program, they will tend to look for candidates within their current base.

The regulatory requirements will also restrict participation in the program. Under the initial guidelines, prospective mentor firms must establish an agreement and work up a complete plan for implementing a Mentor-Protege program prior to being approved for the program. This requirement may be too stringent for this voluntary program and could cause prospective mentor firms to choose not to participate.

The regulatory requirement to tie the length of Mentor-Protege agreements under which costs are to be reimbursed to the term of specific contracts will limit the flexibility of the program and could disrupt established agreements. Prospective mentors may also choose not to participate in the program if they do not feel they have the appropriate contract vehicles in place.

The requirement to select emerging SDBs in numbers equal to more established firms could limit program participation. Prospective mentor firms will tend to select

more established SDBs to minimize risk of failure. The requirement to select an equal number of emerging and established SDBs could limit a mentor firm to one, more established protege.

The last factor that will tend to limit program participation is the disparity between the assistance prospective mentor firms are willing to provide and the assistance SDBs expect under the program. A significant majority of the prospective protege firms expect to receive financial assistance under the program. CONVAIR indicates this is not the preferred type of assistance to be provided by mentor firms. If prospective mentors desire to limit their financial interest in the program, they will limit prospective protege firms to those in the minority that are willing to enter into an agreement that minimizes the financial assistance.

3. Conclusion Three

Funding is critical to the success of the Mentor-Protege program. CONVAIR has stated that they are not willing to use profit dollars to establish or operate a Mentor-Protege program. The SDBs view financial assistance as the most beneficial aspect of the program. Failure to fund the program will prevent prospective mentor firms from participating in the program and diminish its appeal to the SDBs.

4. Conclusion Four

SDBs consider the financial assistance the most important part of the program. Eighty-seven percent of the SDBs selected some form of the financial assistance as the most beneficial. All of the goals SDBs expect to achieve from participation in a Mentor-Protege program are closely related to the availability of financial assistance.

5. Conclusion Five

The provision for limited ownership of the protege by the mentor firm is not an effective method of assistance. Neither CONVAIR nor the SDBs expressed any interest in this form of assistance. It was not viewed as having any benefits to either party in a Mentor-Protege agreement.

B. RECOMMENDATIONS

1. Recommendation One

The approval process for participating in the Mentor-Protege program should be streamlined. A two step approval process is recommended to achieve this objective.

Under this process, a prospective mentor firm would submit a request to participate in the Mentor-Protege program to OSDBU. The request would contain documentation that would support the capabilities of the prospective mentor firm to assist SDBs under this program along with a summary estimate of anticipated costs associated with program execution. Approval for program participation would be based on the

firm's ability to be a mentor, not on a specific finalized agreement as is currently required. This approval could then be used as the basis for the second step, negotiating the specifics of actual program implementation with the local ACO.

This procedure could improve program participation by simplifying program entry requirements and providing prospective mentor firms with the flexibility to establish Mentor-Protege agreements as the opportunities arise, without having to go through the approval process for each and every agreement.

2. Recommendation Two

The requirement to tie the lengths of Mentor-Protege agreements to specific contracts should be eliminated and all Mentor-Protege program approvals should contain provisions for both cost reimbursement and credit for costs that are not reimbursed.

The implementing regulations limit the lengths of Mentor-Protege agreements, under which costs are to be reimbursed, to the terms of the contracts against which developmental costs will be charged. One of the tenets of the Mentor-Protege program and one of the goals the SDBs hope to achieve in the program, is to establish long term business relationships. The legislation allows the initial program length up to five years. Few, if any, DoD contracts a mentor firm may have will be more than one year in duration.

Furthermore, it is possible that a mentor firm will use a protege firm on more than one contract. To tie the Mentor-Protege agreement to a specific contract could disrupt the agreement unnecessarily and limit the mentor's use of the protege. This recommendation would allow the mentor firm to negotiate for the recoupment of developmental costs under several contracts on which the protege will be used and provide for credit when reimbursement is not possible, regardless of the length of any specific contract or status of any particular program.

3. Recommendation Three

Cognizant officials should review the requirement for mentor firms, intending to enter into more than one Mentor-Protege agreement, to take on emerging SDBs in numbers equal to more established SDBs. Since it is likely that prospective mentors will prefer to use more established SDBs when implementing the program, this requirement could limit program participation. If this ratio could be relaxed, it could enhance initial participation by mentor firms and increase the number of SDBs that would be eligible to participate during the evaluation period.

4. Recommendation Four

Prospective mentor firms, considering program participation, should evaluate the program with the expectation of providing financial assistance offered under

the program. This research indicates that financial assistance is the most valued assistance offered under the program. The ability of SDBs to obtain their stated goals through a Mentor-Protege program is more dependent on the financial assistance than the other forms of assistance offered by the program. If prospective mentor firms do not seriously consider financial assistance, the appeal of the program to SDBs will be diminished and the effectiveness of the program will be in jeopardy.

5. Recommendation Five

Funding to support the program should be identified by cognizant DoD officials and the amount available should be promulgated. Since cost reimbursement is a component of the program, failure to identify funding could seriously damage its credibility. Failure to provide funds to reimburse mentor firms' developmental costs will have a negative impact on the firms' willingness to provide financial assistance desired by the proteges and could result in decisions not to participate in the program. Promulgating funding availability will provide prospective mentor firms with information to assist them in scoping and planning for program implementation.

6. Recommendation Six

Congress, the Secretary of Defense and senior Service officials should promote the use of procurement strategies

that create an environment favorable for Mentor-Protege relationships.

The Mentor-Protege program emphasizes long term relationships between program participants. This type of relationship can be difficult to maintain when the mentor firm must continually focus attention on short term concerns that are the result of having to deal with annual contracts, yearly competitions and DoD program instability. By promoting the use of strategies such as multi-year procurement and using priced options on annual contracts that promote stability, the foundation for successful long term relationships would be better established.

C. RESEARCH QUESTIONS

The primary research question for this study was: What strategy options could CONVAIR pursue to implement a Mentor-Protege agreement?

CONVAIR could establish a focal point for Mentor-Protege program operation by incorporating program responsibilities into their Small Business programs branch. The Small Disadvantaged Business Development Council could be used to develop selection criteria to be used to determine the programs on which Mentor-Protege agreements could be used and the criteria for selecting SDBs for participation. The Council could also establish guidelines for developing Mentor-Protege agreements.

CONVAIR could use more stable and mature programs on which to implement a Mentor-Protege agreement. By using programs of this nature, CONVAIR could more readily project future requirements and more effectively plan for protege development and utilization.

CONVAIR could also discuss prospective Mentor-Protege implementation with its DoD customers to determine if funding may be available under their programs to support protege developmental cost reimbursement.

CONVAIR could look for prospective protege firms within its current vendor base and select a more established firm with whom they have had successful dealings, as well as one that would be interested in the assistance CONVAIR prefers to provide under the program.

The following are the subsidiary research questions that were germane to this effort.

What are the essential elements of the Mentor-Protege program?

The essential elements of the Mentor-Protege program are:

1. the agreement between the participants that delineates assistance to be provided and factors to be used to measure protege progress under the program;
2. the forms of assistance the program allows the mentor to provide to the protege; and
3. incentives for the mentor firm that include reimbursement of developmental costs and credit towards SDB subcontracting goals for costs that are not reimbursed.

What was the intent of Congress in initiating this program?

Congress intended that the Mentor-Protege program provide a flexible framework for a mentor to develop SDBs capable of meeting available defense opportunities and that it foster the establishment of stable, long term business relationships.

What are CONVAIR's perceptions of the Mentor-Protege program?

CONVAIR has a favorable impression of the program and believes it has merit. CONVAIR believes that they already provide a substantial amount of the assistance contained in the program and that their organization is well suited to establish a program if desired. CONVAIR is not willing to invest their own money to implement the program.

What are the SDB's perceptions of the Mentor-Protege program?

SDBs have a very favorable impression of the program. They view it as a means to get "get their foot in the door" with large DoD contractors. They believe the assistance offered under the program would be beneficial and have a strong preference for financial related assistance.

What are the barriers to implementing a Mentor-Protege program and how might they be eliminated?

The principal barriers to implementing a Mentor-Protege program are the lack of funding for the program; regulatory

barriers contained in implementing guidance; and the disparity between assistance desired by SDBs and that which the mentor firms are willing to provide. These barriers can be eliminated through the identification of funding to support the program; modification and streamlining of the implementing regulations; and a willingness by program participants to agree on assistance to be provided under a Mentor-Protege agreement.

D. AREAS FOR FURTHER RESEARCH

The following areas are recommended for further research:

1. Evaluation of the Mentor-Protege program after its implementation.
2. Methods to effectively incentivize contractors to carry out socio-economic programs through DoD procurement.
3. Strategies that can be used to improve the opportunity for SDBs to participate in DoD procurement.

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